

# FDIC State Profile

Summer 2004

## Kansas

Kansas' labor market showed modest signs of improvement in the first quarter 2004.

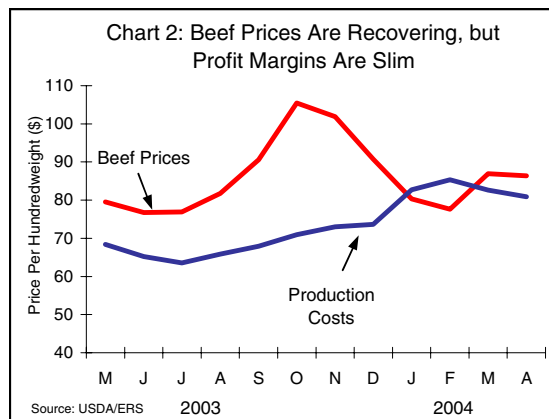
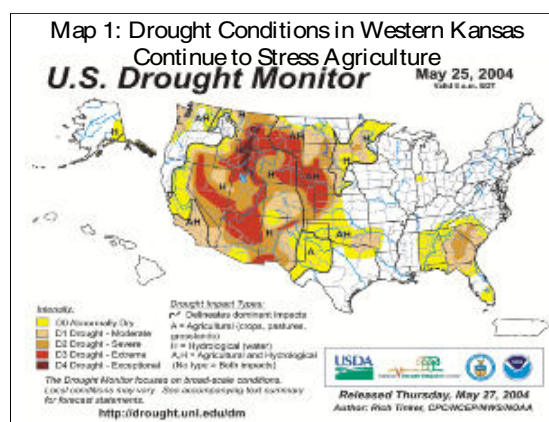
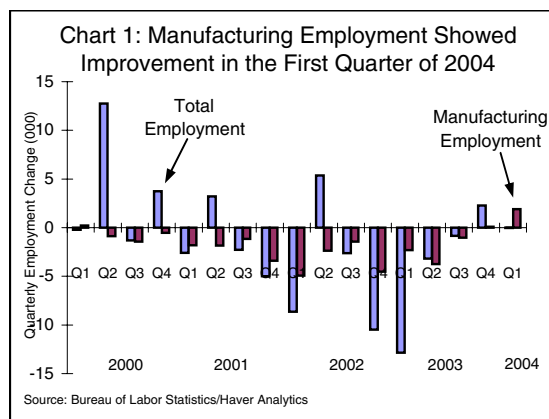
- The Kansas economy remained stable in the first quarter of 2004. Although total employment for the state was flat, the manufacturing sector added jobs in the first quarter of 2004, following a modest gain in the fourth quarter (See Chart 1).
- The unemployment rate declined to 4.8 percent in the first quarter 2004, down from 5.3 percent in the fourth quarter. The unemployment rate has steadily declined from the recent peak of 5.5 percent in the third quarter of 2003.

The drought situation improved slightly in 2003, but effects persist.

- Moderate to extreme agricultural and hydrological drought conditions persist in the western part of the state (See Map 1).
- Reservoirs, streams, and farm ponds remain below normal levels, reflecting the accumulating precipitation shortages over the past four years.
- Drought continues to affect wheat production. The United States Department of Agriculture's (USDA) May 16 crop progress report rates 35 percent of the state's wheat condition as "very poor" or "poor." Additionally, pasture and range crop conditions are reported as 37 percent "very poor" or "poor."

Beef prices have stabilized following the "mad cow" scare.

- In Kansas, cattle receipts account for 61 percent of the state's agricultural revenue.
- Cattle prices declined sharply in December 2003 following the USDA's announcement of the first U.S. case of bovine spongiform encephalopathy (BSE), or "mad cow" disease.
- The spot price for live cattle declined to \$73.80 per hundredweight in the first week of January 2004 as beef export markets quickly shut down. However, prices have since stabilized and are expected to average \$85.00 per hundredweight in 2004.



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- Beef processors face increased production costs because of higher feed grain and fuel costs, which will keep profit margins slim (See Chart 2).

### Persistent drought conditions are negatively affecting farm banks in Kansas, Nebraska, and South Dakota.

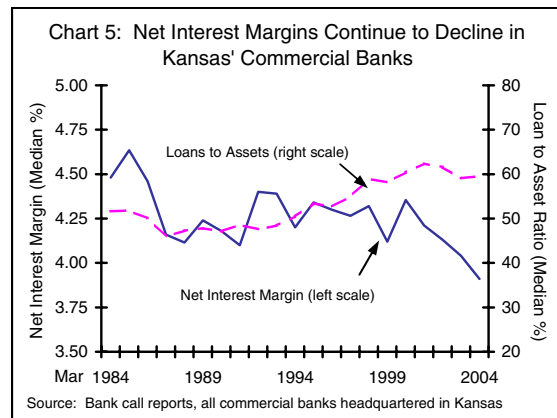
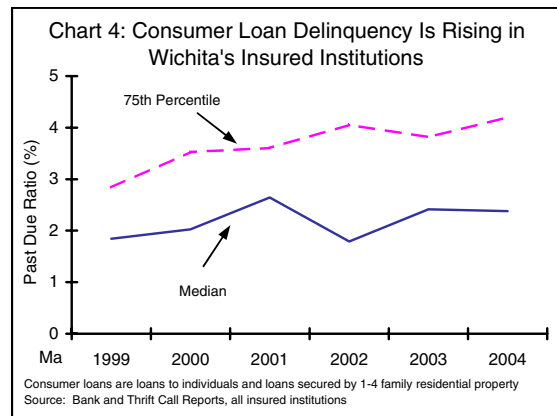
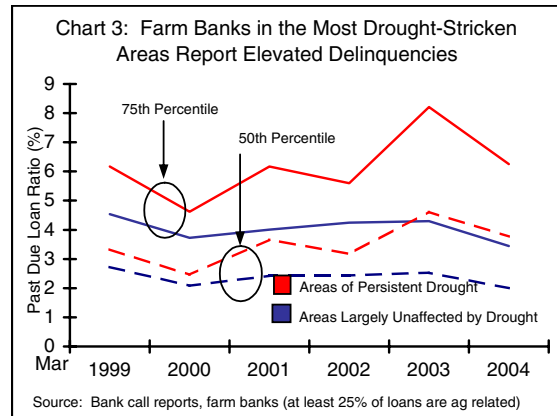
- Four years of persistent drought throughout much of the Region's western states has reduced agricultural output and lowered river and stream flows, reservoir pool elevations, and water tables of underground aquifers substantially.
- As a result, farm banks in the most drought-stricken areas are experiencing elevated delinquencies in their loan portfolios, as reduced farm production negatively impacts farmers' debt service ability (See Chart 3).
- Moreover, in some western agricultural districts, farmland values stagnated or declined in the last two years, the first decline since the farm crisis in the mid-1980s. Declining land values could significantly weaken farm loan collateral margins.

### The prolonged slump in Wichita's aircraft manufacturing sector is negatively affecting consumer credit quality.

- The ongoing negative situation in Wichita's large aircraft manufacturing sector is taking its toll on Wichita as this sector employs an estimated one out of five of the area's workers.
- Many unemployed workers have or soon will exhaust state and federal unemployment benefits, and personal bankruptcies are at a record pace. The stress has negatively impacted consumer loan portfolios as well (See Chart 4).
- Although consumer loan delinquency is rising, overall net charge-offs remain negligible, and loan-loss reserve coverage remains strong.

### Commercial banks in Kansas continue to experience declining net interest margins.

- Net interest margins (NIMs) generally have been declining since 1993, and have dropped significantly over the past three years as the market yield curve flattened and loan growth stabilized (See Chart 5).
- This NIM compression has occurred despite consistent growth in loan-to-assets ratios (LTAs). LTAs are now at levels not seen since 1979, preceding the 1980s agricultural crisis.
- Kansas's commercial banks are currently generating the lowest profit per dollar of credit exposure than at any time during the past 25 years. Regardless, asset quality remains favorable and capital protection remains strong.



## Kansas at a Glance

<b>General Information</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Institutions (#)	379	380	386	392	395
Total Assets (in thousands)	54,194,859	51,598,952	48,728,044	49,858,336	46,017,358
New Institutions (# < 3 years)	7	7	8	8	7
New Institutions (# < 9 years)	18	17	18	15	13
<b>Capital</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Tier 1 Leverage (median)	9.34	9.34	9.51	9.67	9.53
<b>Asset Quality</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Past-Due and Nonaccrual (median %)	1.96%	2.21%	1.83%	2.03%	1.76%
Past-Due and Nonaccrual >= 5%	56	65	46	44	36
ALLL/Total Loans (median %)	1.44%	1.44%	1.40%	1.39%	1.43%
ALLL/Noncurrent Loans (median multiple)	1.87	1.54	1.85	2.11	2.05
Net Loan Losses/Loans (aggregate)	0.24%	0.29%	0.27%	0.20%	0.26%
<b>Earnings</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Unprofitable Institutions (#)	18	23	20	20	13
Percent Unprofitable	4.75%	6.05%	5.18%	5.10%	3.29%
Return on Assets (median %)	1.02	1.04	1.13	1.17	1.20
25th Percentile	0.62	0.72	0.77	0.78	0.82
Net Interest Margin (median %)	3.90%	4.01%	4.10%	4.17%	4.32%
Yield on Earning Assets (median)	5.38%	5.92%	6.79%	8.22%	7.98%
Cost of Funding Earning Assets (median)	1.48%	1.95%	2.66%	4.05%	3.72%
Provisions to Avg. Assets (median)	0.03%	0.06%	0.06%	0.05%	0.03%
Noninterest Income to Avg. Assets (median)	0.58%	0.60%	0.58%	0.58%	0.54%
Overhead to Avg. Assets (median)	2.92%	2.90%	2.88%	2.91%	2.92%
<b>Liquidity/Sensitivity</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Loans to Deposits (median %)	71.87%	71.92%	72.43%	73.53%	69.89%
Loans to Assets (median %)	58.59%	58.86%	61.25%	62.48%	60.36%
Brokered Deposits (# of Institutions)	48	47	41	37	28
Bro. Deps./Assets (median for above inst.)	2.38%	2.44%	3.31%	2.12%	2.33%
Noncore Funding to Assets (median)	15.66%	15.29%	15.08%	15.73%	13.65%
Core Funding to Assets (median)	72.20%	72.24%	72.70%	72.20%	74.65%
<b>Bank Class</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
State Nonmember	226	235	239	245	249
National	97	101	104	107	106
State Member	38	27	26	23	23
S&L	10	10	10	10	10
Savings Bank	8	7	7	7	7
Stock and Mutual SB	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	289	21,751,674	76.25%	40.14%	
Kansas City MO-KS	45	13,226,360	11.87%	24.41%	
Wichita KS	28	7,659,615	7.39%	14.13%	
Topeka KS	10	10,816,506	2.64%	19.96%	
Lawrence KS	7	740,704	1.85%	1.37%	